

**RICHARD CITY-DEPTFORD SCHOOL
GENERAL-PURPOSE SCHOOL FUNDS**

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

**JOHNSON, MURPHEY & WRIGHT, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA, TENNESSEE**

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RICHARD CITY-DEPTFORD SCHOOL
School Board Members
June 30, 2013

Cindy Blevins.....Director

Bill Norman.....Chairman

Bill StuartVice-Chairman

Melissa Phenis.....Member

II. FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Richard City-Deptford School

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Richard City-Deptford School, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Richard City-Deptford School, as of June 30, 2013, and, the changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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Karen Hutcherson, CPA

Marianne Greene, CPA

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Richard City-Deptford School's basic financial statements. The Introductory Section, combining and individual non-major fund financial statements and Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements, and Supplementary Information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and Supplemental Information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013, on our consideration of the Richard City-Deptford School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Richard City-Deptford School's internal control over financial reporting and compliance.

Johnson, Murphy & Wright, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Richard City-Deptford School (RCDS) we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the RCDS for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

FINANCIAL HIGHLIGHTS

Richard City-Deptford School's assets exceeded its liabilities and deferred inflows of resources by \$1,892,396 (net position).

Total governmental activities operated at a surplus of \$196,648 for the year ended June 30, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction of the RCDS's basic financial statements. The RCDS's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the RCDS's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the RCDS's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as *net position*. Over time, increases or decrease in net position may serve as a useful indicator of whether the financial position of the RCDS is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements distinguish functions of the RCDS that are principally supported by taxes and intergovernmental revenues (governmental activities).

The government-wide financial statements include not only the RCDS, but also the operations of the Student Activity Funds. The governmental activities of RCDS include regular instruction, special education program, students and attendance, health services, other student support, regular and special education support, Board of Education, Superintendent, Principal, fiscal services, plant operations, maintenance of plant, food service, community services, student activities and interest on long-term debt.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The RCDS, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the RCDS are governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The RCDS maintains three individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the other governmental funds are presented separately. Individual fund data for the non-major governmental funds are provided later in this report beginning on page 34.

The RCDS adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major and non-major governmental funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13 through 21 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 22 through 32 of this report.

Other Information

The statements referred to earlier in connection with the non-major governmental funds, are presented immediately following the notes. Individual fund statements can be found on pages 34 through 38 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning RCDS. This supplementary information can be found on pages 39 through 44 of this report.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of RCDS, assets exceeded liabilities and deferred inflows of resources by \$1,892,396 at the close of this fiscal year.

A portion of the RCDS's net position (67.51%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any debt used to acquire those assets that is still outstanding. The RCDS uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although RCDS's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Richard City-Deptford School's Net Position

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 1,258,791	\$ 1,064,052
Capital assets	<u>4,322,934</u>	<u>4,516,613</u>
Total assets	<u>\$ 5,581,725</u>	<u>\$ 5,580,665</u>
Long-term liabilities	\$ 3,045,404	\$ 3,110,404
Other liabilities	<u>298,925</u>	<u>368,221</u>
Total liabilities	<u>\$ 3,344,329</u>	<u>\$ 3,478,625</u>
Deferred inflows of resources	<u>\$ 345,000</u>	<u>\$ 346,000</u>
Net investment in capital assets	\$ 1,277,530	\$ 1,406,209
Unrestricted	<u>614,866</u>	<u>349,831</u>
Total net position	<u>\$ 1,892,396</u>	<u>\$ 1,756,040</u>

None of the RCDS's net position represents resources that are subject to external restrictions on how they may be used. Therefore, \$614,866 in unrestricted net position may be used to meet the School's ongoing obligations to its students and creditors.

At June 30, 2013, the RCDS is able to report positive balances in all three categories of net position.

Changes in Net Position

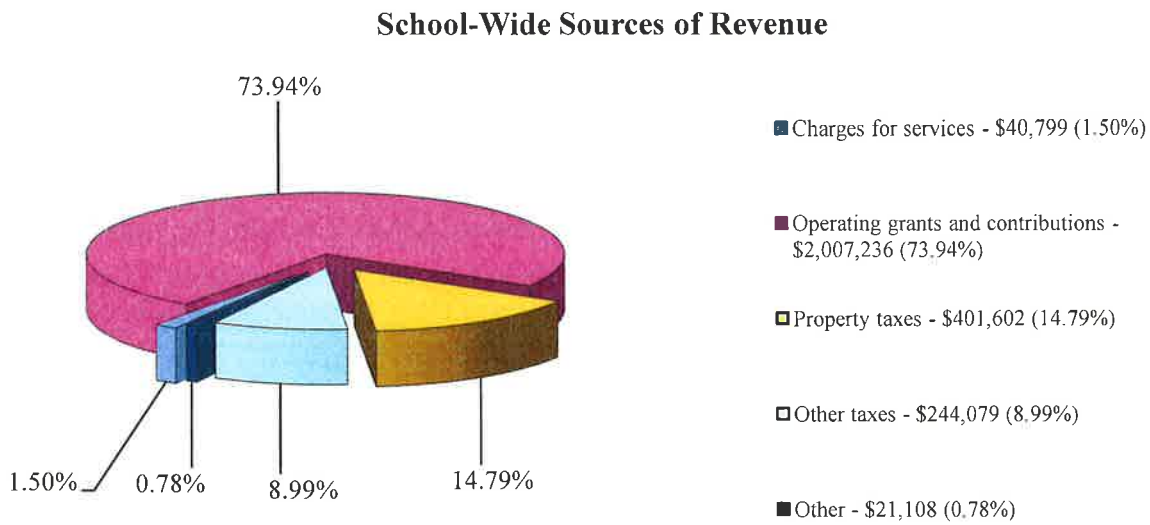
Governmental activities increased the RCDS's net position by \$196,648.

The table below provides a summary of RCDS's changes in net position.

Richard City-Deptford School's Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 40,799	\$ 56,542
Operating grants and contributions	2,007,236	2,049,699
General revenues:		
Property taxes	401,602	407,540
Other taxes	244,079	286,919
Other	21,108	3,125
Total revenues	<u>2,714,824</u>	<u>2,803,825</u>
Expenses:		
Regular instruction	1,189,547	1,425,828
Special education program	101,894	130,324
Students and attendance	25,457	38,030
Health services	30,707	44,359
Other student support	52,877	6,373
Regular and special education support	64,368	50,672
Board of Education	53,437	63,132
Superintendent	87,814	95,676
Principal	77,654	87,529
Fiscal services	38,400	59,805
Plant operation	403,121	398,978
Maintenance of plant	20,478	21,473
Food service	115,307	148,230
Community services	5,640	6,148
Student activities	99,754	138,324
Interest on long-term debt	151,721	157,857
Total expenses	<u>2,518,176</u>	<u>2,872,738</u>
Increase (decrease) in net position	196,648	(68,913)
Net position - beginning (2013 as restated)	<u>1,695,748</u>	<u>1,824,953</u>
Net position - end	<u>\$ 1,892,396</u>	<u>\$ 1,756,040</u>

The graphs below summarize the \$2,714,824 of the School's revenues by source.



FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the RCDS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the RCDS's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the RCDS's financing requirements. The unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year for future unforeseen emergencies.

As of the end of the current fiscal year the RCDS's governmental funds reported combined ending fund balances of \$614,866.

The General Fund is the chief operating fund of the RCDS. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$573,226. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 26.90% of total General Fund expenditures.

The fund balance of the RCDS's General Fund increased by \$312,696 during the current fiscal year.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget.

Departmental budget officers closely monitored expenditures during the fiscal year in order to minimize budget amendments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The RCDS's capital assets for its governmental activities as of June 30, 2013, amounted to \$4,322,934 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, and furniture, fixtures and equipment.

Major capital asset events during the current fiscal year included the following:

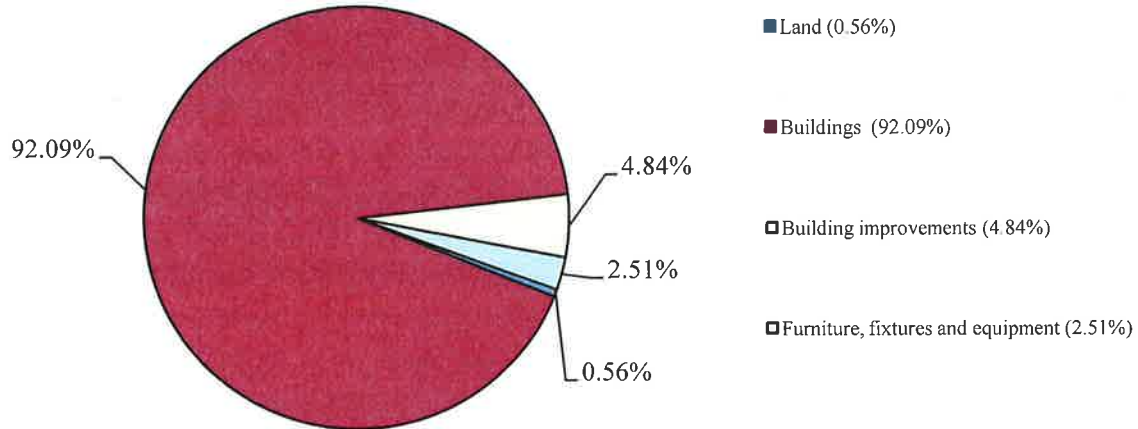
Playground playfull pickup	\$ 1,844
10 Dell tablets	\$ 3,570
Pre-K fence	\$ 2,270
Server	\$ 2,221

Richard City-Deptford School's Capital Assets (Net of depreciation)

	Governmental Activities
Land	\$ 24,000
Buildings	3,981,070
Building improvements	209,243
Furniture, fixtures and equipment	108,621
	<u>\$ 4,322,934</u>

The following graph provides a breakdown of which assets make up the largest portion of the School's total investment in capital assets.

School-Wide Capital Assets



Additional information on the School's capital assets can be found in Note 5 on page 28.

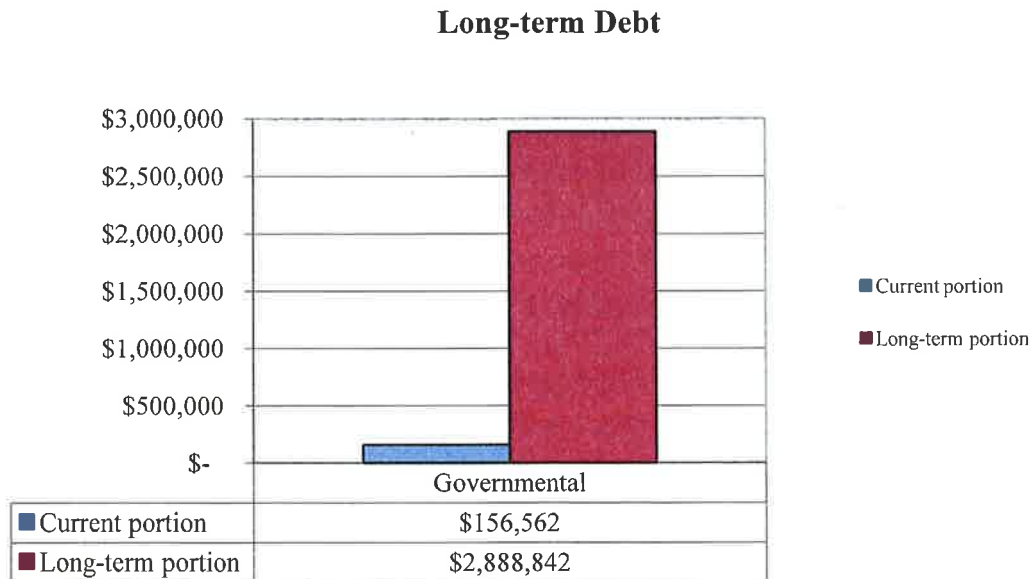
Richard City-Deptford School's Outstanding Debt

Long-term Debt

At the end of the current fiscal year, the RCDS had total long-term debt outstanding of \$3,045,404. Of this amount \$156,562 is due in the next fiscal year.

	Governmental Activities
School bonds - series 2000	\$ 1,165,000
School bonds - series 2004	<u>1,880,404</u>
	3,045,404
Current portion	<u>(156,562)</u>
Long-term debt	<u>\$ 2,888,842</u>

The graph below shows debt for governmental activities broken down into current and long-term portions.



Additional information on long-term debt can be found in Note 6 on page 29.

Currently Known Conditions Effecting Future Years

Richard City-Deptford School missed their September, 2011 principal and interest payment to Rural Development Corporation (RDC) and is currently in the process of making monthly payments to repay the past due amount. RDC has verbally agreed to refinance this debt and is waiting on receipt of the June 30, 2013 financial statements to complete this refinancing.

Requests for Information

This financial report is designed to provide a general overview of RCDS's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report and requests for additional financial information may be addressed to Richard Hardy Memorial School, 1620 Hamilton Avenue, South Pittsburg, TN 37380.

BASIC FINANCIAL STATEMENTS

RICHARD CITY-DEPTFORD SCHOOL
Statement of Net Position
June 30, 2013

	Governmental Activities
ASSETS	
Cash	\$ 438,690
Investments	255,609
Property tax receivable	381,436
Sales tax receivable	18,564
Grants receivable	163,327
Other current assets	1,165
Capital assets:	
Land and construction in progress	24,000
Other capital assets - net of accumulated depreciation	4,298,934
Total assets	<u>\$ 5,581,725</u>
LIABILITIES	
Accounts payable	\$ 25,747
Accrued liabilities	273,178
Non-current liabilities:	
Due within one year	156,562
Due in more than one year	2,888,842
Total liabilities	<u>3,344,329</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred property taxes	<u>345,000</u>
NET POSITION	
Net investment in capital assets	1,277,530
Unrestricted	614,866
Total net position	<u>1,892,396</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,581,725</u>

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL

Statement of Activities Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
Regular instruction	\$ 1,189,547	\$ 12,359	\$ 1,711,809	\$ -	\$ 534,621
Special education program	101,894	-	82,522	-	(19,372)
Students and attendance	25,457	-	-	-	(25,457)
Health services	30,707	-	-	-	(30,707)
Other student support	52,877	6,060	-	-	(46,817)
Regular and special education support	64,368	-	9,099	-	(55,269)
Board of Education	53,437	-	-	-	(53,437)
Superintendent	87,814	-	-	-	(87,814)
Principal	77,654	-	-	-	(77,654)
Fiscal services	38,400	-	-	-	(38,400)
Plant operation	403,121	-	-	-	(403,121)
Maintenance of plant	20,478	-	-	-	(20,478)
Food service	115,307	22,380	91,550	-	(1,377)
Community services	5,640	-	-	-	(5,640)
Student activities	99,754	-	112,256	-	12,502
Interest on long-term debt	151,721	-	-	-	(151,721)
Total primary government	<u>\$ 2,518,176</u>	<u>\$ 40,799</u>	<u>\$ 2,007,236</u>	<u>\$ -</u>	<u>(470,141)</u>
General revenues:					
Property taxes					401,602
Payments in lieu of taxes					3,079
Local option sales tax					229,769
Hotel-motel tax					368
Bank excise tax					3,741
Wholesale beer tax					6,958
Other statutory local taxes					164
Interest revenue					2,775
Other revenues					<u>18,333</u>
Total general revenues					<u>666,789</u>
Change in net position					196,648
Net position - beginning (as restated)					<u>1,695,748</u>
Net position - end					<u>\$ 1,892,396</u>

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL
Governmental Funds
Balance Sheet
June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 389,497	\$ 49,193	\$ 438,690
Investments	255,609	-	255,609
Due from other funds	46,317	-	46,317
Property tax receivable	381,436	-	381,436
Sales tax receivable	18,564	-	18,564
Grants receivable	117,010	46,317	163,327
Other current assets	1,165	-	1,165
Total assets	<u>\$1,209,598</u>	<u>\$ 95,510</u>	<u>\$ 1,305,108</u>
LIABILITIES			
Accounts payable	\$ 25,747	\$ -	\$ 25,747
Accrued liabilities	265,625	7,553	273,178
Due to other funds	-	46,317	46,317
Total liabilities	<u>291,372</u>	<u>53,870</u>	<u>345,242</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	<u>345,000</u>	<u>-</u>	<u>345,000</u>
FUND BALANCES			
Assigned	-	41,640	41,640
Unassigned	<u>573,226</u>	<u>-</u>	<u>573,226</u>
Total fund balances	<u>573,226</u>	<u>41,640</u>	<u>614,866</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$1,209,598</u>	<u>\$ 95,510</u>	<u>\$ 1,305,108</u>

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2013

Total fund balances per governmental funds balance sheet	\$ 614,866
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,322,934
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,045,404)</u>
Net position of governmental activities	<u>\$ 1,892,396</u>

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Local taxes	\$ 624,446	\$ -	\$ 624,446
Special school district taxes	21,235	-	21,235
Licenses and permits	156	-	156
Charges for services	18,419	-	18,419
Other local revenues	43,201	129	43,330
Intergovernmental	1,736,271	158,709	1,894,980
Student activities	<u>-</u>	<u>112,256</u>	<u>112,256</u>
TOTAL REVENUES	<u>2,443,728</u>	<u>271,094</u>	<u>2,714,822</u>
EXPENDITURES			
Current expenditures			
Regular instruction	1,128,106	57,980	1,186,086
Special education program	53,173	48,721	101,894
Students and attendance	25,457	-	25,457
Health services	30,707	-	30,707
Other student support	51,452	1,425	52,877
Regular and special education support	13,785	50,583	64,368
Board of Education	53,437	-	53,437
Superintendent	88,804	-	88,804
Principal	78,764	-	78,764
Fiscal services	38,400	-	38,400
Plant operation	191,417	-	191,417
Maintenance of plant	20,478	-	20,478
Food service	115,307	-	115,307
Community services	5,640	-	5,640
Student activities	-	99,754	99,754
Capital outlay	19,384	-	19,384
Debt service	<u>216,721</u>	<u>-</u>	<u>216,721</u>
TOTAL EXPENDITURES	<u>2,131,032</u>	<u>258,463</u>	<u>2,389,495</u>
Excess (deficiency) of revenues over (under) expenditures	312,696	12,631	325,327
Fund balances - beginning (General Fund as restated)	<u>260,530</u>	<u>29,009</u>	<u>289,539</u>
Fund balances - end	<u>\$ 573,226</u>	<u>\$ 41,640</u>	<u>\$ 614,866</u>

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2013

Net change in fund balances for total governmental funds	\$ 325,327
Governmental funds report capital outlay as expenditures, however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current period.	(193,679)
Repayment of long-term debt is reported as an expenditure in governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position.	<u>65,000</u>
Change in net position of governmental activities	<u>\$ 196,648</u>

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2013

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable
				(Unfavorable)
REVENUES				
Local taxes				
County property taxes	\$ 389,971	\$ 389,971	\$ 380,367	\$ (9,604)
Payments in lieu of taxes	3,975	3,975	3,079	(896)
Local option sales tax	236,510	236,510	229,769	(6,741)
Hotel-motel tax	2,500	2,500	368	(2,132)
Bank excise tax	6,369	6,369	3,741	(2,628)
Wholesale beer tax	10,000	10,000	6,958	(3,042)
Other statutory local taxes	385	385	164	(221)
Total local taxes	649,710	649,710	624,446	(25,264)
Special school district taxes				
City property tax	20,550	20,550	21,235	685
License and permits				
Marriage license	200	200	156	(44)
Charges for services				
Tuition	25,000	25,000	12,359	(12,641)
After school program	8,000	8,000	6,060	(1,940)
Total charges for services	33,000	33,000	18,419	(14,581)
Other local revenues				
Interest earned	1,000	1,000	2,646	1,646
Miscellaneous	4,000	4,000	6,408	2,408
Contributions and gifts	10,000	10,000	11,767	1,767
Lunch and snacks	33,000	33,000	22,380	(10,620)
Total other local revenues	48,000	48,000	43,201	(4,799)
Intergovernmental				
Education funds	1,455,408	1,455,408	1,462,010	6,602
Education funds - awards	169,358	169,358	169,358	-
Career ladder program	12,000	12,000	12,857	857
USDA lunch and breakfast	57,000	57,000	91,550	34,550
Race to the Top - awards	496	496	496	-
Total intergovernmental	1,694,262	1,694,262	1,736,271	42,009
TOTAL REVENUES	2,445,722	2,445,722	2,443,728	(1,994)

(Continued)

RICHARD CITY-DEPTFORD SCHOOL

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued) Year Ended June 30, 2013

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	
EXPENDITURES				
Current Expenditures				
Regular instruction				
Salaries	\$ 938,321	\$ 938,321	\$ 899,196	\$ 39,125
Payroll taxes	70,819	70,819	61,887	8,932
Retirement	78,234	78,234	73,949	4,285
Medical insurance	50,100	50,100	36,976	13,124
Contracted services	19,533	19,533	15,550	3,983
Supplies and materials	36,295	36,295	31,693	4,602
Other charges	10,120	10,120	2,280	7,840
Unemployment insurance	6,575	6,575	6,575	-
Total regular instruction	1,209,997	1,209,997	1,128,106	81,891
Special education program				
Salaries	49,994	49,994	45,049	4,945
Payroll taxes	4,062	4,062	3,446	616
Retirement	4,030	4,030	3,313	717
Supplies and materials	1,400	1,400	1,365	35
Total special education program	59,486	59,486	53,173	6,313
Students and attendance				
Salaries	22,500	22,500	22,500	-
Payroll taxes	1,721	1,721	1,721	-
Supplies and materials	1,240	1,240	1,236	4
Travel	360	360	-	360
Total students and attendance	25,821	25,821	25,457	364
Health services				
Salaries	27,000	27,000	20,669	6,331
Payroll taxes	2,066	2,066	2,069	(3)
Contracted services	809	809	309	500
Supplies and materials	5,908	5,908	5,239	669
Travel	2,646	2,646	2,303	343
Other charges	218	218	118	100
Dues and memberships	100	100	-	100
Total health services	38,747	38,747	30,707	8,040
(Continued)				

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)

Year Ended June 30, 2013

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
EXPENDITURES (Continued)				
Current Expenditures (Continued)				
Other student support				
Salaries	\$ 14,169	\$ 14,169	\$ -	\$ 14,169
Payroll taxes	1,273	1,273	-	1,273
Contracted services	5,000	5,000	3,251	1,749
Supplies and materials	1,163	1,163	1,163	-
Travel	702	702	702	-
Other charges	51,136	51,136	46,336	4,800
Total other student support	<u>73,443</u>	<u>73,443</u>	<u>51,452</u>	<u>21,991</u>
Regular and special education support				
Salaries	2,572	2,572	2,572	-
Payroll taxes	197	197	196	1
Contracted services	9,178	9,178	8,661	517
Staff development	496	496	706	(210)
Travel	1,241	1,241	1,636	(395)
Other charges	59	59	14	45
Total regular and special education support	<u>13,743</u>	<u>13,743</u>	<u>13,785</u>	<u>(42)</u>
Board of Education				
Professional services	23,638	23,638	19,819	3,819
Travel	2,000	2,000	1,067	933
Other charges	2,100	2,100	657	1,443
Dues and memberships	1,300	1,300	1,227	73
Insurance	22,621	22,621	20,292	2,329
Trustee commission	10,500	10,500	10,375	125
Total Board of Education	<u>62,159</u>	<u>62,159</u>	<u>53,437</u>	<u>8,722</u>
Superintendent				
Salaries	67,792	67,792	67,345	447
Payroll taxes	4,883	4,883	5,109	(226)
Retirement	5,668	5,668	5,302	366
Supplies and materials	300	300	247	53
Travel	3,500	3,500	2,870	630
Other charges	471	471	262	209
Dues and memberships	2,281	2,281	1,860	421
Communication	5,528	5,528	5,809	(281)
Total Superintendent	<u>90,423</u>	<u>90,423</u>	<u>88,804</u>	<u>1,619</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)
Year Ended June 30, 2013

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
EXPENDITURES (Continued)				
Current Expenditures (Continued)				
Principal				
Salaries	\$ 58,000	\$ 58,000	\$ 57,999	\$ 1
Payroll taxes	3,884	3,884	3,852	32
Retirement	4,732	4,732	5,150	(418)
Medical insurance	6,200	6,200	5,567	633
Supplies and materials	50	50	54	(4)
Travel	100	100	90	10
Other charges	650	650	243	407
Dues and memberships	150	150	-	150
Communication	5,528	5,528	5,809	(281)
Total Principal	79,294	79,294	78,764	530
Fiscal services				
Salaries	47,500	47,500	31,193	16,307
Payroll taxes	3,634	3,634	2,386	1,248
Supplies and materials	1,643	1,643	1,492	151
Travel	832	832	788	44
Other charges	3,350	3,350	2,541	809
Total fiscal services	56,959	56,959	38,400	18,559
Plant operation				
Salaries	51,000	51,000	51,386	(386)
Payroll taxes	3,825	3,825	3,814	11
Contracted services	11,439	11,439	11,439	-
Supplies and materials	11,150	11,150	10,634	516
Travel	1,500	1,500	773	727
Other charges	1,000	1,000	1,017	(17)
Insurance	15,518	15,518	13,973	1,545
Utilities	98,486	98,486	98,381	105
Total plant operation	193,918	193,918	191,417	2,501
Maintenance of plant				
Maintenance and repairs - building	5,000	5,000	2,299	2,701
Maintenance and repairs - equipment	8,000	8,000	8,007	(7)
Vehicle	1,000	1,000	711	289
Equipment and machine parts	2,000	2,000	1,711	289
Contracted services	8,500	8,500	7,750	750
Total maintenance of plant	24,500	24,500	20,478	4,022

(Continued)

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)
Year Ended June 30, 2013

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	
EXPENDITURES (Continued)				
Current Expenditures (Continued)				
Food service				
Salaries	\$ 32,900	\$ 32,900	\$ 21,166	\$ 11,734
Payroll taxes	2,517	2,517	1,619	898
Contracted services	90,416	90,416	90,416	-
Supplies and materials	1,700	1,700	1,505	195
Staff development	200	200	-	200
Travel	1,000	1,000	379	621
Other charges	18,534	18,534	222	18,312
Total food service	<u>147,267</u>	<u>147,267</u>	<u>115,307</u>	<u>31,960</u>
Community services				
Salaries	5,500	5,500	5,239	261
Payroll taxes	421	421	401	20
Total community service	<u>5,921</u>	<u>5,921</u>	<u>5,640</u>	<u>281</u>
Capital outlay				
Regular instruction equipment	7,536	7,536	7,031	505
Superintendent equipment	151	151	120	31
Fiscal services equipment	50	50	-	50
Maintenance of plant equipment	2,000	2,000	-	2,000
Building improvements	2,000	2,000	12,233	(10,233)
Total capital outlay	<u>11,737</u>	<u>11,737</u>	<u>19,384</u>	<u>(7,647)</u>
Debt service				
Principal paid on debt	65,475	65,475	65,000	475
Interest paid on debt	198,054	198,054	151,721	46,333
Total debt service	<u>263,529</u>	<u>263,529</u>	<u>216,721</u>	<u>46,808</u>
TOTAL EXPENDITURES	<u>2,356,944</u>	<u>2,356,944</u>	<u>2,131,032</u>	<u>225,912</u>
Excess (deficiency) of revenues over (under) expenditures	88,778	88,778	312,696	223,918
Fund balances - beginning (as restated)	<u>260,530</u>	<u>260,530</u>	<u>260,530</u>	<u>-</u>
Fund balances - end	<u>\$ 349,308</u>	<u>\$ 349,308</u>	<u>\$ 573,226</u>	<u>\$ 223,918</u>

The accompanying notes are an integral part of the financial statements.

RICHARD CITY-DEPTFORD SCHOOL
Notes to Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Richard City-Deptford School have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board, the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the more significant accounting policies:

A. Reporting Entity

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB issued Statement No. 14, *The Financial Reporting Entity*. This statement requires that the financial statements present the Richard City-Deptford School (the primary government) and any component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting one of the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board and the primary government is able to impose its will upon the potential component unit); or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government.

Based on the foregoing criteria there are no entities which meet the above criteria for inclusion in the Richard City-Deptford School financial statements.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the School as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as governmental activities.

Government-wide statements

The Statement of Net Position and Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. In the government-wide Statement of Net Position, the governmental activities column (a) is presented on a consolidated basis for column, and (b) is reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements (Continued)

Government-wide statements (Continued)

The Statement of Activities presents both a gross and net cost comparison between direct expenses and program revenues for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The net cost (by function) is normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. When both restricted and unrestricted net position is available for use, it is the School's policy to use restricted net position first, then unrestricted net position as needed.

This government-wide focus is designed to view the School as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Fund Financial Statements

The fund financial statements provide information about the School's funds (its governmental funds). Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The School reports the following major governmental fund:

General Fund

This is the School's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

C. Measurement Focus - Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which there is an enforceable lien. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All governmental fund financial statements are reported using the current financial resources measurement focus. With this measurement focus and the modified accrual basis of accounting, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The School considers property taxes as available if they are collected within 60 days after the year-end. Those revenues susceptible to accrual are taxes, tuition and interest revenue. Licenses and permits, and most miscellaneous revenues are recorded as revenues when received in cash, because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus - Basis of Accounting (Continued)

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

All governmental activities of the School follow FASB ASC, unless those pronouncements conflict with GASB pronouncements, in which case, GASB prevails.

D. Fund Balance

Assigned Fund Balance:

Amounts that are constrained by the School's intent to be used for specific purposes are reflected as assigned in the accompanying financial statements. The principal is the official authorized to assign amounts to a specific purpose. Authorization is established by the *Tennessee Internal School Uniform Accounting Policy Manual*.

Unassigned Fund Balance:

In accordance with generally accepted accounting principles, the General Fund is the only fund that reports amounts for unassigned fund balance. This classification represents fund balance that is not restricted and has not been assigned to specific purposes within the General Fund.

When both assigned and unassigned resources are available for use, it is the School's policy to use assigned resources first, then unassigned resources as they are needed.

E. Budgets

The School is required by state statute to adopt annual budgets. The General Fund and Federal Projects Fund budgets are prepared on the basis where current available funds must be sufficient to meet current expenditures. Expenditures may not legally exceed appropriations authorized by the School Board, and any authorized revisions.

The Student Activity Fund is not required by state statutes to have an appropriated budget. However, student activity funds are required to have a management budget for each fiscal year.

Budgeted amounts are adopted in accordance with accounting principles generally accepted in the United States of America (GAAP). Therefore, no adjustments are necessary to convert to the actual GAAP data from the budgetary basis. During the year, no supplementary appropriations were necessary. All appropriations which are not expended lapse at year-end.

F. Cash

For the purpose of reporting cash on the Statement of Net Position, the School considers all unrestricted highly liquid investments with an initial maturity of three months or less, when purchased to be cash equivalents, cash consists of cash-on-hand and on-deposit with financial institutions. These are classified on the Statement of Net Position as "Cash". At June 30, 2013, there were no cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investments are carried at fair value, which approximates cost, and consist of certificates of deposit. These are classified on the Statement of Net Position as "Investments".

The School is authorized by State Statutes to invest in the following:

Bonds, notes or treasury bills of the United States.

Nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association.

Any obligation guaranteed by the United States or any of its agencies.

Certificates-of-deposit at state and federal chartered banks and savings and loan associations.

The Local Government Investment Pool created by Title 9.

H. Interfund Transactions

Interfund Receivables and Payables

Short-term advances between funds are not eliminated but accounted for in the appropriate interfund receivable and payable accounts classified as due to other funds and due from other funds in the fund financial statements, and are subject to elimination upon consolidation.

Transactions between Funds

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expense in the fund that is reimbursed. All other legally authorized transfers are not eliminated but treated as operating transfers and are included as other financing sources or uses in the governmental funds.

I. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended asset's lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings	40
Furniture, fixtures and equipment	3-20
Building improvements	10-15

J. Compensated Absences

Vacation pay is not computed or paid separately, but is built into salaries which are paid over the twelve month school year. Therefore no accrual is required. The granting of sick leave has no guaranteed payment attached and requires no accrual.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position.

L. Net Position

Net position is the residual of all elements presented in the Statement of Net Position (i.e., assets + deferred outflows - liabilities - deferred inflows). Net investment in capital assets represents capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net position represents restricted assets which are maintained for a specific purpose. At June 30, 2013, there was no restricted net position.

M. Prepayment of Expenditures

Governmental fund expenditures for insurance and similar services extending over more than one accounting period are not allocated between accounting periods but accounted for as expenditures of the period of acquisition.

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. Student Activity Fund

Richard City-Deptford School's Activity Fund is authorized by the Board of Education's adoption of the "Tennessee Internal School Financial Management Manual". Funds are received from fund-raisers. The proceeds received are used to benefit all students, or the restricted purpose for which they were collected. These funds are the property of Richard City-Deptford School, and they are responsible for them when received by their employees.

P. Events Occurring after Reporting Date

The School has evaluated events and transactions that occurred between June 30, 2013, and December 18, 2013, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - DEPOSITS

Deposits

Custodial credit risk is the risk that in the event of a bank failure the School's deposits may not be returned to it. The School does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2013, the carrying amount of the School's deposits was \$694,299, and the bank balance was \$749,263. None of the School's bank balance was exposed to custodial credit risk as uninsured or uncollateralized due to the fact that all of its deposits and investments are fully insured or collateralized.

The carrying amount of the School's deposits and certificates of deposit is classified as follows on the Statement of Net Position:

Cash	\$ 438,690
Investments	<u>255,609</u>
Total	<u>\$ 694,299</u>

Investments

The School's investments are carried at fair value, and consist of certificates of deposit. The School's investments are listed on the Statement of Net Position are as follows:

Investments	<u>\$ 255,609</u>
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NOTE 3 - PROPERTY TAXES

The School recognizes property tax revenues on the accrual basis in the government-wide financial statements, and in the governmental funds they are recognized on the modified accrual basis, as prescribed by the Governmental Accounting Standards Board.

Special School District property taxes received by the School are assessed by the Tax Assessor of Marion County, Tennessee, and collected by the County. Taxes are due October 1, and become delinquent March 1. The tax rate for the 2013 year was \$.19 per \$100 of assessed valuation.

The School also receives .0745% per \$100 of the total assessed valuation for Marion County. This rate is based on school attendance.

Marion County has periodic public sales of delinquent tax properties. Accordingly, there is no allowance for uncollectibles recorded in the financial statements.

In addition to the Special School District property taxes, the School receives a portion of county property taxes and other miscellaneous county taxes, based on the percentage of the School's student enrollment to total county school enrollment.

Property taxes for the 2013 levy are considered to be owed to the School as of the lien date on January 1, 2013. Therefore, the entire 2013 levy was recorded as a receivable and deferred revenue as of June 30, 2013, in the financial statements.

NOTE 4 - GRANTS RECEIVABLE

Grant receivable at June 30, 2013, consists of the following:

U.S. Department of Education	
Elementary and Secondary Education Act	
Title 1, Part A	\$ 14,369
IDEA - Part B	24,438
IDEA - Preschool	472
Title II, Part A	3,698
Title VI	3,340
State Discretionary - Coordinated School Health - Expansion	47,280
State Discretionary - Early Childhood Education - Pilot/State	<u>69,730</u>
 Total	 <u>\$ 163,327</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 24,000	\$ -	\$ -	\$ 24,000
Total capital assets not being depreciated	<u>24,000</u>	<u>-</u>	<u>-</u>	<u>24,000</u>
Capital assets being depreciated:				
Buildings	5,631,495	-	-	5,631,495
Building improvements	610,542	4,114	(859)	613,797
Furniture, fixtures and equipment	<u>300,536</u>	<u>5,791</u>	<u>(9,471)</u>	<u>296,856</u>
Total capital assets being depreciated	<u>6,542,573</u>	<u>9,905</u>	<u>(10,330)</u>	<u>6,542,148</u>
Less accumulated depreciation for:				
Buildings	1,514,863	135,562	-	1,650,425
Building improvements	364,510	40,903	(859)	404,554
Furniture, fixtures and equipment	<u>170,587</u>	<u>27,119</u>	<u>(9,471)</u>	<u>188,235</u>
Total accumulated depreciation	<u>2,049,960</u>	<u>203,584</u>	<u>(10,330)</u>	<u>2,243,214</u>
Total capital assets being depreciated - net	<u>4,492,613</u>	<u>(193,679)</u>	<u>-</u>	<u>4,298,934</u>
Governmental activities capital assets - net	<u>\$ 4,516,613</u>	<u>\$ (193,679)</u>	<u>\$ -</u>	<u>\$ 4,322,934</u>

Depreciation expense was charged to the functions of the primary government as follows:

Plant operation	<u>\$ 203,584</u>
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NOTE 6 - LONG-TERM DEBT

A. Governmental Debt General Fund

Long-term debt payable by the General Fund, which consists of bonds payable, is summarized as follows:

	<u>Principal Balance</u>
Bonds payable - School Bond - Series 2000, due in varying annual amounts, interest rate 5.35% to 7.75%, maturing in 2025.	\$ 1,165,000
Bonds payable - School Bond - Series 2004, due in annual payments of \$107,020, interest rate 4.25%, maturing 9/26/2043.	<u>1,880,404</u>
	3,045,404
Less current portion of governmental long-term debt	<u>(156,562)</u>
Total governmental long-term debt	<u>\$ 2,888,842</u>

A summary of changes in governmental long-term debt for the year ended June 30, 2013, is as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>	<u>Amount due Within One Year</u>
School bonds - Series 2000	\$ 1,230,000	\$ -	\$ (65,000)	\$ 1,165,000	\$ 70,000
School bonds - Series 2004	<u>1,880,404</u>	<u>-</u>	<u>-</u>	<u>1,880,404</u>	<u>86,562</u>
Total	<u>\$ 3,110,404</u>	<u>\$ -</u>	<u>\$ (65,000)</u>	3,045,404	<u>\$ 156,562</u>
Less: current portion of Governmental long-term debt				<u>(156,562)</u>	
Total governmental long-term debt				<u>\$ 2,888,842</u>	

Interest paid during the year ended June 30, 2013, on governmental long-term debt amounted to \$151,721.

Governmental debt service requirements to maturity including interest of \$1,996,656 are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2014	\$ 156,562	\$ 146,477	\$ 303,039
2015	105,720	141,375	247,095
2016	112,026	135,906	247,932
2017	113,387	129,986	243,373
2018	119,806	124,006	243,812
2019-2023	717,516	512,977	1,230,493
2024-2028	498,212	315,373	813,585
2029-2033	299,477	235,623	535,100
2034-2038	368,762	166,338	535,100
2039-2043	454,072	81,028	535,100
2044	<u>99,864</u>	<u>7,567</u>	<u>107,431</u>
Total	<u>\$ 3,045,404</u>	<u>\$ 1,996,656</u>	<u>\$ 5,042,060</u>

NOTE 7 - FUND BALANCES - GOVERNMENTAL FUNDS

Assigned - represents \$41,640 of Student Activity funds assigned for a specific purpose.

NOTE 8 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position:

The governmental fund balance includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the governmental-wide Statement of Net Position. One element of that reconciliation explains that, "long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$(3,045,404) difference are as follows:

Bonds payable	<u>\$ (3,045,404)</u>
Net adjustment	<u>\$(3,045,404)</u>

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances for total governmental funds and changes in net position of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that, "Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The details of this \$(193,679) difference are as follows:

Depreciation expense	<u>\$ (203,584)</u>
Capital outlay	<u>9,905</u>
Net adjustment	<u>\$ (193,679)</u>

Another element of that reconciliation states that, "Repayment of long-term debt is reported as an expenditure in governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position". The details of this \$65,000 difference are as follows:

Principal repayments:	
Bonds	<u>\$ 65,000</u>
Net adjustment	<u>\$ 65,000</u>

NOTE 9 - COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

The School has no material noncompliance with finance related legal and contractual provisions, except for the violation of the debt covenant (See Note 16).

NOTE 10 - DEFINED BENEFIT PLAN

Plan Description

The Richard City Schools contribute to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/schools.

Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for Richard City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2013, was 8.88% of annual covered payroll. The employer contribution requirement for Richard City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2013, 2012 and 2011 were \$80,563, \$110,356 and \$129,210, respectively, equal to the required contributions for each year.

NOTE 11 - COMMERCIAL INSURANCE

It is the policy of the School to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property, and employee health. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 12 - CONTINGENT LIABILITIES

As of June 30, 2013, the School does not have any material contingent liabilities that would have a material effect on the School's financial condition, except for the missed payments to the Rural Development Corporation (See Note 16).

NOTE 13 - LITIGATION AND CLAIMS

Certain claims and lawsuits are pending against the School. In the opinion of the School management, the potential loss on all claims and lawsuits will not be significant to the School's financial statements.

NOTE 14 - DEFERRED INFLOWS OF RESOURCES - PROPERTY TAXES

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer inflows recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred inflows reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	<u>\$ -</u>	<u>\$ 345,000</u>	<u>\$ 345,000</u>

Funds that are earned, but not available, are realized as revenue under GASB #33.

NOTE 15 - SALARY SUPPLEMENTS

No salary supplements were paid to any employee of the School from Activity Funds.

NOTE 16 - PAST DUE DEBT

Richard City-Deptford School missed their September, 2011 principal and interest payment to Rural Development Corporation, due to the large deficits they have had thru June 30, 2012. Management has drastically cut the expenditures to produce a \$196,648 profit for the fiscal year ended June 30, 2013. Negotiations are currently underway to refinance this debt with Rural Development Corporation.

NOTE 17 - RESTATEMENT OF NET POSITION AND FUND BALANCE

Richard City-Deptford School issued bonds in 2005 and did not record \$60,292 of accrued interest due but not payable. This was discovered during the past year when discussing the refinancing of debt and this accrued interest was recorded as follows in the General Fund:

Net position and fund balance - beginning	\$ 320,822
Accrued interest	<u>(60,292)</u>
Net position and fund balance - as restated	<u>\$ 260,530</u>

NON-MAJOR GOVERNMENTAL FUNDS

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenues that are legally restricted to finance specific functions or activities of government and which, therefore, cannot be diverted to other uses.

Student Activity Fund

This fund accounts for proceeds received from proceeds of athletic events, concessions and fund-raisers and for the disbursement of those funds.

Federal Projects Fund

This fund accounts for federal project funds received from the Federal Government and for disbursement of those funds for federal programs of the Richard City-Deptford School.

RICHARD CITY-DEPTFORD SCHOOL
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2013

	Special Revenue Funds		Total Non-major Governmental Funds
	Student Activity Fund	Federal Projects Fund	
ASSETS			
Cash	\$ 49,193	\$ -	\$ 49,193
Grants receivable	-	46,317	46,317
TOTAL ASSETS	<u>\$ 49,193</u>	<u>\$ 46,317</u>	<u>\$ 95,510</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued liabilities	\$ 7,553	\$ -	\$ 7,553
Due to other funds	-	46,317	46,317
Total liabilities	<u>7,553</u>	<u>46,317</u>	<u>53,870</u>
Fund Balances			
Assigned	<u>41,640</u>	-	<u>41,640</u>
Total fund balances	<u>41,640</u>	-	<u>41,640</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 49,193</u>	<u>\$ 46,317</u>	<u>\$ 95,510</u>

RICHARD CITY-DEPTFORD SCHOOL
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2013

	Special Revenue Funds		Total Non-major Governmental Funds
	Student Activity Fund	Federal Projects Fund	
REVENUES			
Other local revenues	\$ 129	\$ -	\$ 129
Intergovernmental	-	158,709	158,709
Student activities	<u>112,256</u>	<u>-</u>	<u>112,256</u>
TOTAL REVENUES	<u>112,385</u>	<u>158,709</u>	<u>271,094</u>
EXPENDITURES			
Current expenditures			
Regular instruction	-	57,980	57,980
Special education program	-	48,721	48,721
Other student support	-	1,425	1,425
Regular and special education support	-	50,583	50,583
Student activities	<u>99,754</u>	<u>-</u>	<u>99,754</u>
TOTAL EXPENDITURES	<u>99,754</u>	<u>158,709</u>	<u>258,463</u>
Excess (deficiency) of revenues over (under) expenditures	12,631	-	12,631
Fund balances - beginning	<u>29,009</u>	<u>-</u>	<u>29,009</u>
Fund balances - end	<u>\$ 41,640</u>	<u>\$ -</u>	<u>\$ 41,640</u>

RICHARD CITY-DEPTFORD SCHOOL
Student Activity Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2013

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Other local revenues				
Interest	\$ 100	\$ 100	\$ 129	\$ 29
Student activities				
Annual	11,000	11,000	12,805	1,805
Instruction supplies	15,800	15,800	11,246	(4,554)
Magazine sales	2,500	2,500	-	(2,500)
School production and trips	33,500	33,500	9,132	(24,368)
Fund-raising	3,000	3,000	1,919	(1,081)
Maintenance and operations	5,800	5,800	12	(5,788)
Athletics	21,400	21,400	25,824	4,424
Senior class	1,000	1,000	4,957	3,957
Administration	4,400	4,400	1,487	(2,913)
Class and clubs	23,400	23,400	44,874	21,474
Total student activities	121,800	121,800	112,256	(9,544)
TOTAL REVENUES	121,900	121,900	112,385	(9,515)
EXPENDITURES				
Current expenditures				
Annual	6,000	6,000	6,869	(869)
Instruction supplies	10,150	10,150	4,707	5,443
Magazine sales	2,000	2,000	-	2,000
School production and trips	32,900	32,900	10,356	22,544
Fund-raising	3,000	3,000	1,913	1,087
Maintenance and operations	5,200	5,200	212	4,988
Athletics	21,000	21,000	16,776	4,224
Senior class	1,000	1,000	4,957	(3,957)
Administration	3,200	3,200	5,705	(2,505)
Class and clubs	19,175	19,175	48,259	(29,084)
Total student activities	103,625	103,625	99,754	3,871
TOTAL EXPENDITURES	103,625	103,625	99,754	3,871
Excess (deficiency) of revenues over (under) expenditures	18,275	18,275	12,631	(5,644)
Fund balances - beginning	29,009	29,009	29,009	-
Fund balances - end	\$ 47,284	\$ 47,284	\$ 41,640	\$ (5,644)

RICHARD CITY-DEPTFORD SCHOOL
Federal Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental				
Title I	\$ 69,115	\$ 69,115	\$ 53,896	\$ (15,219)
Title II - Part A	31,249	31,249	13,192	(18,057)
Title VI	-	-	9,099	9,099
IDEA - Part B	81,148	81,148	78,385	(2,763)
IDEA - Preschool	4,396	4,396	4,137	(259)
TOTAL REVENUES	<u>185,908</u>	<u>185,908</u>	<u>158,709</u>	<u>(27,199)</u>
EXPENDITURES				
Current expenditures				
Regular instruction				
Salaries	36,182	36,182	34,312	1,870
Payroll taxes	2,699	2,699	2,589	110
Retirement	3,132	3,132	2,830	302
Supplies and materials	11,700	11,700	18,249	(6,549)
Other charges	8,363	8,363	-	8,363
Total regular instruction	<u>62,076</u>	<u>62,076</u>	<u>57,980</u>	<u>4,096</u>
Special education program				
Salaries	41,274	41,274	40,936	338
Payroll taxes	3,158	3,158	3,078	80
Retirement	3,106	3,106	3,510	(404)
Contracted services	-	-	116	(116)
Supplies and materials	3,455	3,455	1,081	2,374
Total special education program	<u>50,993</u>	<u>50,993</u>	<u>48,721</u>	<u>2,272</u>
Other student support				
Salaries	2,452	2,452	1,038	1,414
Payroll taxes	188	188	79	109
Other charges	400	400	308	92
Total other student support	<u>3,040</u>	<u>3,040</u>	<u>1,425</u>	<u>1,615</u>

(Continued)

RICHARD CITY-DEPTFORD SCHOOL

Federal Projects Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Continued)

Year Ended June 30, 2013

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable
				(Unfavorable)
EXPENDITURES (Continued)				
Current expenditures (Continued)				
Regular and special education support				
Salaries	\$ 30,375	\$ 30,375	\$ 29,244	\$ 1,131
Payroll taxes	2,324	2,324	2,237	87
Retirement	2,381	2,381	2,373	8
Contracted services	5,596	5,596	5,860	(264)
Supplies and materials	1,400	1,400	785	615
Staff development	12,312	12,312	6,288	6,024
Travel	11,411	11,411	3,276	8,135
Other charges	4,000	4,000	520	3,480
Total regular and special education support	69,799	69,799	50,583	19,216
TOTAL EXPENDITURES	185,908	185,908	158,709	27,199
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - end	\$ -	\$ -	\$ -	\$ -

SUPPLEMENTARY INFORMATION

RICHARD CITY-DEPTFORD SCHOOL
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program Identification Number</u>	<u>(Receivable) Deferred July 1, 2012</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>(Receivable) Deferred June 30, 2013</u>
<u>FEDERAL FINANCIAL ASSISTANCE</u>						
U.S. Department of Education						
Passed through Tennessee Department of Education:						
Elementary and Secondary Education Act - Title I, Part A	84.010	2013.01	\$ (10,355)	\$ 49,882	\$ 53,896	\$ (14,369)
IDEA - Part B	84.027	2013.01	(9,236)	63,183	78,385	(24,438)
IDEA - Preschool	84.392A	2013.01	(1,042)	4,707	4,137	(472)
Title II, Part A	84.367	2013.01	(2,265)	11,759	13,192	(3,698)
Title VI	84.358A		(2,658)	8,417	9,099	(3,340)
State Discretionary - Coordinated School Health - Expansion	84.397		-	25,720	73,000	(47,280)
Race to the Top	84.395		-	496	496	-
Total federal financial awards			<u>(25,556)</u>	<u>164,164</u>	<u>232,205</u>	<u>(93,597)</u>
<u>STATE FINANCIAL ASSISTANCE</u>						
State Discretionary - Early Childhood Education - Pilot/State			-	26,628	96,358	(69,730)
TOTAL FEDERAL AND STATE AWARDS			<u>\$ (25,556)</u>	<u>\$ 190,792</u>	<u>\$ 328,563</u>	<u>\$ (163,327)</u>

RICHARD CITY-DEPTFORD SCHOOL
Notes to the Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of Richard City-Deptford School and is presented on the modified accrual basis of accounting.

RICHARD CITY-DEPTFORD SCHOOL
Schedule of Bonds of School Officials
Year Ended June 30, 2013

<u>Employee</u>	<u>Insurance Company</u>	<u>Bond</u>	<u>Expires</u>
Cindy Blevins, Director of Schools	Western Surety Company	\$150,000	09/05/2015
Jennifer Olton, Bookkeeper	Western Surety Company	\$150,000	06/30/2013

RICHARD CITY-DEPTFORD SCHOOL
Schedule of Debt Service Requirements
June 30, 2013

SCHOOL BOND - SERIES 2000

Bearing interest at the annual rate of 5.35-7.75%

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2014	\$ 70,000	\$ 68,925	\$ 138,925
2015	75,000	65,075	140,075
2016	80,000	60,912	140,912
2017	80,000	56,353	136,353
2018	85,000	51,792	136,792
2019	90,000	46,778	136,778
2020	100,000	41,467	141,467
2021	105,000	35,468	140,468
2022	110,000	29,167	139,167
2023	115,000	22,513	137,513
2024	125,000	15,555	140,555
2025	<u>130,000</u>	<u>7,930</u>	<u>137,930</u>
Total	<u>\$ 1,165,000</u>	<u>\$ 501,935</u>	<u>\$ 1,666,935</u>

RICHARD CITY-DEPTFORD SCHOOL
Schedule of Debt Service Requirements
June 30, 2013

SCHOOL BOND - SERIES 2004

Bearing interest at the annual rate of 4.25%

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2014	\$ 86,562	\$ 77,552	\$ 164,114
2015	30,720	76,300	107,020
2016	32,026	74,994	107,020
2017	33,387	73,633	107,020
2018	34,806	72,214	107,020
2019	36,285	70,735	107,020
2020	37,827	69,193	107,020
2021	39,435	67,585	107,020
2022	41,111	65,909	107,020
2023	42,858	64,162	107,020
2024	44,680	62,340	107,020
2025	46,579	60,441	107,020
2026	48,558	58,462	107,020
2027	50,622	56,398	107,020
2028	52,773	54,247	107,020
2029	55,016	52,004	107,020
2030	57,354	49,666	107,020
2031	59,792	47,228	107,020
2032	62,333	44,687	107,020
2033	64,982	42,038	107,020
2034	67,744	39,276	107,020
2035	70,623	36,397	107,020
2036	73,625	33,395	107,020
2037	76,754	30,266	107,020
2038	80,016	27,004	107,020
2039	83,416	23,604	107,020
2040	86,962	20,058	107,020
2041	90,657	16,363	107,020
2042	94,510	12,510	107,020
2043	98,527	8,493	107,020
2044	99,864	7,567	107,431
Total	<u>\$ 1,880,404</u>	<u>\$ 1,494,721</u>	<u>\$ 3,375,125</u>

RICHARD CITY-DEPTFORD SCHOOL
General Fund
Schedule of Tax Rates, Assessments and Taxes Receivable
June 30, 2013

<u>Year of Levy</u>	<u>Special School District Tax Rate Per \$100 Assessment Plus Allotment</u>	<u>Marion County Allotment ADA Rate</u>	<u>Special School District Assessment</u>	<u>Marion County Assessment</u>	<u>Property Taxes Receivable</u>
2013	\$.1965	.0745%	\$ 12,767,391	\$ 649,741,158	\$ 345,000
2012	\$.1965	.0694%	\$ 12,688,335	\$ 645,716,775	9,215
2011	\$.19	.0649%	\$ 11,287,300	\$ 517,719,568	20,996
2010	\$.21	.0648%	\$ 8,523,810	\$ 424,382,716	6,225
2009	\$.21	.0708%	\$ 8,571,429	\$ 388,418,079	-
2008	\$.21	.0652%	\$ 9,857,143	\$ 480,061,350	-
2007	\$.21	.0652%	\$ 10,603,260	\$ 517,570,844	-
2006	\$.21	.0652%	\$ 9,823,948	\$ 474,494,865	-
2005	\$.21	.0652%	\$ 9,407,447	\$ 414,256,656	-
2004	\$.21	.0773%	\$ 9,518,080	\$ 353,184,994	-
					381,436
					(-)
					<u>\$ 381,436</u>

Less allowance for uncollectibles - see note below.

Marion County has periodic public sales of delinquent tax properties and all delinquent property taxes are eventually collected. Accordingly, there is no allowance for uncollectible taxes.

The Richard City-Deptford Schools receive the \$1.965 special school district taxes on property in the Richard City-Deptford School District, as well as a portion of the real property taxes for Marion County that is allotted to schools. The percentage they receive is adjusted based on school attendance.

III. INTERNAL CONTROL AND COMPLIANCE SECTION



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Richard City-Deptford School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and major fund, and the aggregate remaining fund information of Richard City-Deptford School as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Richard City-Deptford School's basic financial statements and have issued our report thereon dated December 18, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Richard City-Deptford School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Richard City-Deptford School's internal control. Accordingly, we do not express an opinion on the effectiveness of Richard City-Deptford School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as 13-1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Richard City-Deptford School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as 13-2.

Richard City-Deptford School's Response to Findings

Richard City-Deptford School's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Richard City-Deptford School's response was not subjected to the auditing procedures applied the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Murphy & Wright, P.C.

Chattanooga, Tennessee
December 18, 2013

RICHARD CITY-DEPTFORD SCHOOL
Schedule of Findings and Responses
June 30, 2013

SUMMARY OF AUDIT RESULTS

Opinion:

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Deficiencies:

During the audit of the financial statement a significant deficiency in internal controls was disclosed.

Material Noncompliance:

One instance of noncompliance or other matters was disclosed.

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INTERNAL CONTROL:

Finding 13-1 - Approvals and Documentation (repeat 12-2)

Criteria:

Government Auditing Standards Chapter A.06(h) states that, "inadequate controls for the safeguarding of assets" is a control deficiency.

Condition:

- 1) Not all invoices selected for testing were initialed as "approved" for payment.
- 2) Not all credit card statements selected for testing were initialed as approved.
- 3) Not all bank reconciliations selected for testing were initialed as approved.
- 4) Not all payroll summaries were initialed as approved.

Cause:

- 1) An approval process was not followed so that every invoice is physically approved by the proper authority.
- 2) All approval process was not followed so that every credit card statement is physically approved by the proper authority.
- 3) An approval process was not followed so that every bank reconciliation is physically approved by the proper authority.
- 4) An approval process was not followed so that every payroll summary is physically approved by the proper authority.

Effect:

Without following proper procedures on all invoices, credit card statements, bank reconciliations and payroll summaries, improper payments could be expensed to the School.

Management's Response:

We concur. We will make every effort to correct these issues in the future.

RICHARD CITY-DEPTFORD SCHOOL
Schedule of Findings and Responses (Continued)
June 30, 2013

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (Continued)

COMPLIANCE:

Finding 13-2 - Violation of Debt Covenant (repeat 12-4)

Criteria:

Tennessee Internal School Uniform Accounting Policy Manual, Section 3, states that "Duties and responsibilities of the directors of schools include... ensuring that remedial action is taken to resolve any audit findings".

Condition Found:

The School failed to make its September, 2011, principal and interest payment to Rural Development Corporation. This debt covenant violation was referred to in the School's June 30, 2011, annual financial report. The School is currently making its required monthly payments and is in the process of refinancing this past due debt.

Recommendation:

The School should maintain a cash flow sufficient to meet its debt covenant.

Management's Response:

We concur. We have drastically cut expenditures and are producing a positive cash flow. We are currently in negotiations with Rural Development Corporation to refinance this past due debt.

RICHARD CITY-DEPTFORD SCHOOL
Schedule of Prior Audit Findings
June 30, 2013

INTERNAL CONTROLS

Finding 12-1 - Accounting Expertise
Corrected.

Finding 12-2 - Approvals and Documentation
Still in effect.

COMPLIANCE

Finding 12-3 - Expenditures Exceeded Budget
Corrected.

Finding 12-4 - Violation of Debt Covenant
Still in effect.